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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION

OF THE

PRESIDENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

TO

THE KINGDOM OF MOROCCO

FOR

THE DEVELOPMENT OF THE SEBOU BASIN

(RHARB IRRIGATION PROJECT)

October 15, 1969

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE GOVERNMENT OF MOROCCO FOR THE RHARB IRRIGATION PROJECT (SEBOU BASIN)

1. I submit the following report and recommendation on a proposed loan in an amount in various currencies equivalent to US $46 million to the Kingdom of Morocco.

PART I - HISTORICAL

2. The Project would be the first one financed by the Bank in the agricultural sector in Morocco since 1965, when a US $10 million loan for an agricultural credit project was made. The Bank had previously lent US $17.5 million for the development of part of the Rharb Plain, the Sidi Slimane area.

3. In 1966, when it became apparent that Morocco faced a number of serious organization planning problems in the agricultural sector, including unsatisfactory progress on the two agricultural projects financed by the Bank, the Bank offered to assist with advice on organizational and manpower requirements in this field and in carrying out a review of the principal agricultural projects and programs. The survey of organization was carried out by consultants and the survey of projects and programs by the Bank. Both were completed in 1967. Meanwhile, the two projects continued in difficulties. In the case of the Agricultural Credit Loan, MOR-433, they became so serious that the Bank felt obliged to suspend disbursement in February 1968.

4. The steps taken by the Moroccan authorities to overcome the problems in agricultural administration in general and in carrying out the agricultural credit project in particular, made it possible to lift the suspension in September 1968 and to consider new agricultural projects. Among these, a first phase irrigation project in the Sebou Basin studied since 1963 by a UNDP/FAO team and for which the Government had sought Bank

assistance as early as September 1967, was ready for appraisal and appeared to command a high economic priority. Following preliminary discussions in Rabat and in the Bank in September-October 1968, it was decided to proceed with the appraisal of the project, which was carried out in January-February 1969.

5. Negotiations for the irrigation project started in Washington on August 7 and were substantially completed on August 15 except for certain points which were settled early in October. The head of the Moroccan delegation was Mr. Mohammed El Mdaghri, the Director of the Office of the Budget in the Ministry of Finance. He was accompanied by Messrs. Farouk Bennis and Abdallah Fassi Fihri, also of the Ministry of Finance, and Mr. Taieb Fechtali, the Director of the Regional Agricultural Development Office for the Rharb, who will be in direct charge of the project.

6. The proposed loan would be the Bank's seventh and would increase its lending to Morocco to $128.1 million. In addition, IDA lending amounts to $18.3 million. A summary statement of Bank loans, IDA credits, and IFC investments, as of August 31, 1969, as well as a brief report on project execution under those operations, was included in my report and recommendation for the loan and credit for a highway project, distributed to the Executive Directors on September 25, 1969.

PART II - DESCRIPTION OF THE PROPOSED LOAN

7.

Borrower:	Kingdom of Morocco
Amount:	The equivalent of US $46 million in various currencies.
Purpose:	To finance the foreign exchange costs of the first phase of the long-term development of 90,000 hectares for agricultural and livestock production under irrigation and improved rainfed farming over an area of about 200,000 hectares in the Rharb Plain.

Amortization:	In 30 years including a nine-year grace period, through semi-annual installments beginning December 15, 1978 and ending December 15, 1999.
Interest Rate:	Seven percent per annum.
Commitment Charge:	Three-fourths of one percent per annum.
Estimated Economic Rate of Return:	Eleven percent per annum.

PART III - THE PROJECT

8. An appraisal report entitled "Morocco - Development of the Sebou Basin - Rharb Irrigation Project" is attached, (PA-20a).

9. With this project, the Moroccan Government undertakes the agricultural development of one of Morocco's most important underutilized land and water resources. Not only will the project make possible in about 20 years a five-fold increase in net value of agricultural production in the project area (and thus raise farm income for the 90,000 inhabitants), but it will also provide for all of Morocco an example of integrated land development in both irrigated and rainfed areas, applying modern agricultural practices and new land tenure policies.

10. Two-thirds of the Moroccan population is engaged in agriculture and traditional subsistence farming occupies more than four-fifths of the cultivated area. In view of the importance of the agricultural sector in the economy, and the imperative need for Morocco to increase agricultural productivity in order to support its rapidly growing population, the Government is giving high priority in the Five-Year Plan (1968-1972) to agricultural development. Almost one-third of total capital investment under the Plan will go to agricultural development, of which the development of the Rharb Plain is the largest single investment program.

11. The proposed loan would finance the foreign exchange costs of the first phase of the Rharb Plain development, covering

about 90,000 hectares. Plans for further development of the Rharb Plain and the Sebou Basin as a whole have been set forth in the UNDP/FAO studies. It is expected that the complete irrigation of the Plain will require 25-30 years for execution and cost about $400-500 million.

12. The Regional Agricultural Development Office of the Ministry of Agriculture and Agrarian Reform will be responsible for execution of the Project. With the assistance of the Director of the Office, members of the UNDP/FAO team and French management consultants, the Ministry has worked out integrated plans for organizing, financing and implementing the Rharb development. These functions will continue through a newly established Programming, Planning and Budgeting Service within the Office. Almost two-thirds of the staff have already been recruited and the remaining posts will be filled to the extent possible with experienced personnel drawn from other irrigation projects nearing completion. The staff of the Office will be further strengthened by the employment of general consultants to provide overall support for the Director of the Office, as well as specialized consultants for specific (and technical) operations.

13. Coordination of activities involving the various offices within the Ministry of Agriculture will be through a special committee to be established by the Minister of Agriculture and Agrarian Reform. Representatives of other government agencies concerned, such as the Ministries of Finance, Public Works, Interior and Planning will also be represented on this committee.

14. The project will include:

(i) the construction of the upstream storage dam at Arabat (Idriss I dam);

(ii) the irrigation of 43,000 ha. out of the 200,000 ha. to be eventually irrigated in the Rharb Plain of the Sebou Basin;

(iii) improved rainfed farming on 27,000 ha; and

(iv) roads and processing facilities.

15. The construction cost of the Project would be $97 million, of which $33.5 million would be foreign exchange. The addition of $12.5 million for interest on the Bank's loan gives a total foreign exchange requirement of $46 million. The rate of return to the

about 90,000 hectares. Plans for further development of the Rharb Plain and the Sebou Basin as a whole have been set forth in the UNDP/FAO studies. It is expected that the complete irrigation of the Plain will require 25-30 years for execution and cost about $400-500 million.

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15. The construction cost of the Project would be $97 million, of which $33.5 million would be foreign exchange. The addition of $12.5 million for interest on the Bank's loan gives a total foreign exchange requirement of $46 million. The rate of return to the

economy is estimated to be 11 percent. The Project will also result in substantial indirect benefits, which include the domestic value added from increased crop processing, transport and marketing of agricultural products, as well as the stimulation of Moroccan production of agricultural inputs, such as farm machinery, improved seeds and fertilizers. Furthermore, the development of the Rharb would provide additional employment for rural laborers in their home areas, and thus would offset to some extent the pressure on them to move to the cities.

16. In order to permit the efficient utilization of mechanized farm equipment and modern agricultural practices, as well as the creation of farms averaging 5 hectares for those farmers in the area who own smaller tracts or are landless, the project will require a large program of land consolidation and redistribution. About two-thirds of the land in the project area are held by the state, by villages (collectively), by religious trusts and by foreigners. These lands will be taken over by the Government in a "common fund" and subsequently redistributed under the new Agricultural Investment Code that sets forth policies and procedures for development of irrigated areas and land redistribution. Farmers receiving allotments of "common fund" land will repay the Government for it over a 20-year period with 4 percent interest.

17. The Moroccan Government has already made arrangements for compensation to one group of foreign farmers whose lands were taken over by the State following enactment of legislation in 1963. Under the Protectorate, these "lots de colonisation" had been awarded by the State to foreign settlers, mostly French, under a variety of legal arrangements and ownership was not clear. Some of these lands were located in the area of the Bank-financed Sidi Slimane project. Agreement has been reached with France on the claims of its nationals, who have been compensated by the French Government, which is in turn reimbursed by Morocco over a period of years. A similar settlement was made with Belgium, and negotiations are underway to settle a small volume of claims by Swiss nationals.

18. As regards land recognized to be held in freehold ownership by foreigners ("melk" land initially purchased from Moroccan owners), of which some 20,000 hectares are located in the project area, the Government has decided that, as a general rule, it would be expropriated. No such expropriation has taken place as yet. In the course of negotiations for the proposed loan, the Moroccan

delegation confirmed its Government's intention of indemnifying the owners of expropriated land. Though valuation standards and payment modalities have yet to be fixed, the delegation noted that, by virtue of the legislation now in effect, the legitimate rights of the interested landowners will be recognized and compensation will be equitable.

19. Because of the long period required for construction of the dam and irrigation and drainage works, as well as preparation of the land, it will be nine years before the project works are fully utilized and a major production increase results. The nine-year grace period is consistent with this timing. The recommended 30-year term is justified in view of the long time needed to recover costs which is strongly affected by the twelve-year period required for new citrus groves to reach full production. Thirty-four percent of the projected gross value of production in the area would come from citrus. Also on more general grounds related to the country's external debt and balance of payments, it would be desirable to grant an extended period of amortization on this loan.

20. Procurement for the Project will be carried out in accordance with the Bank's normal procedures, including international competitive bidding. Preference will be given to local manufacturers in awarding contracts; for this purpose, comparison will be made between (i) the CIF price of the foreign product increased by 15 percent or by the actual rate of duties and taxes payable, whichever is the lower, plus internal transportation and insurance costs; and (ii) the ex-factory price of the Moroccan product plus internal transportation and insurance costs.

21. The irrigation of the land in the project area is scheduled to begin in summer 1972. To ensure the availability of water and to prepare the land by that time, it was necessary to begin construction of the Idriss I dam in the summer of 1969 to avoid losing a year. Accordingly, the construction contract was awarded on May 13, 1969 to a joint venture led by a French contracting firm, fully in accordance with Bank procurement procedures. Because of the need to start construction and inasmuch as the project was already under appraisal at that time, it is provided in the loan documents that appropriate expenditures from that date may be met out of the loan. The sums expended before the expected time of signature which would be reimbursable under the loan are not expected to exceed $500,000.

PART IV - LEGAL INSTRUMENTS AND AUTHORITY

22. The Draft Loan Agreement between the Bank and the Kingdom of Morocco, the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement, and the text of a Resolution approving the proposed loan are being distributed to the Executive Directors separately.

23. In addition to the provisions normally included in Loan Agreements, this agreement provides that the Bank may declare the principal and interest payable if either the Agricultural Investment Code or the laws establishing the Regional Development Office of the Rharb are changed so as to adversely affect the Project (cf. Section 6.02 of the Draft Loan Agreement). An additional condition to the effectiveness of the Loan Agreement is that the Government shall have retained consultants satisfactory to the Bank to assist the Director of the Regional Office (cf. Section 7.01 of the Draft Loan Agreement).

PART V - THE ECONOMY

24. An economic report entitled "Recent Economic Developments in Morocco" (No. EMA-14, dated August 29, 1969) was distributed to the Executive Directors on September 22, 1969. Our current views on Morocco's economic performance and creditworthiness were summarized in my report on the Highway Project.

PART VI - COMPLIANCE WITH ARTICLES OF AGREEMENT

25. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VII - RECOMMENDATION

26. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara
President

Attachment